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MEMORANDUM FOR:

Attached is OER/D/LA's input
for DDCI Briefing for 29 November
SRG Meeting.

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Latin America Branch

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29 November 1973
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FORM NO. 101 REPLACES FORM 10-101
1 AUG 54 WHICH MAY BE USED.

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29 November 1973

DDCI BRIEFING FOR
29 NOVEMBER SRG MEETING

Peru: Current Economic Situation

- I. The economic situation appears to be good despite mounting budgetary deficits and rapidly increasing external debt.
- A. Gross domestic product is expected to grow by more than 5% in 1973 with manufacturing exceeding 7%.
- B. Although output in the mining sector is expected to increase by a modest 3%, mineral exports have already jumped 27% to \$543 million because of high world prices.
- C. The darkest spot in the economic picture is agriculture, which has been depressed because of poor weather and the agrarian reform program.
- D. Despite public sector deficits of nearly 30%, Peru's inflation (between 8% and 10% annually) continues to be one of the lowest rates in Latin America.
- E. Although Peru's external debt is expected to increase nearly fivefold to \$1.4 billion by the end of the year, high world prices for copper and a probable recovery in fishmeal exports by mid-1974 will ease the debt repayment burden.

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II. Fishmeal exports continue to be restricted while the ban on anchovy fishing is extended to April.

A. As a result of the poor anchovy situation, exports of fishmeal and tuna -- totaling nearly \$200 million in the first half of 1972 -- were only about \$8 million in the first half of 1973.

B. Fishmeal exports presently are limited to 30% of pre-October contracts. Current fishmeal stocks are estimated at less than 60,000 metric tons, compared to 788,000 tons at the beginning of 1972.

III. Peru has nearly \$1 billion in credits and foreign investment under negotiation, including \$300 million for the Trans-Andean pipeline, despite the uncertain investment climate.

A. This far Peru has obtained over \$200 million in Western credits and is seeking an additional \$600 to \$800 million for various developmental projects.

B. Since 1971, more than a dozen foreign oil companies (mostly US) have signed joint-venture contracts with the State Oil Company for exploration and development of petroleum deposits in the interior and off the northern coast.

C. Financing of a \$330 million Trans-Andean pipeline and refinery is being negotiated with Japanese interests. The pipeline project is crucial to Peru's development plans as it still must import nearly one-third of its petroleum needs.

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US investors are interested in this project, but Export-Import Bank participation probably is essential.

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D. Peru will not be self-sufficient in petroleum before 1975-76 and only then if Lima completes the pipeline and rapidly develops the new jungle reserves.

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- V. Peruvian efforts to increase economic ties with Communist countries has resulted in a rapid increase in joint ventures, credits, and trade.
- A. Total Communist aid extended to Peru since 1968 is nearing \$250 million although less than \$12 million appears to have been drawn.
 - B. Communist interest in joint investment ventures in Peru has increased rapidly and some \$100 million in investment is currently underway.
 - C. The largest venture thus far is an estimated \$60 to \$80 million of Rumanian investment for the development of the Antamina copper deposits.
 - D. The Soviets may provide economic and technical assistance for hydroelectric^{and steel} projects costing in excess of \$500 million.
 - E. The Soviets also have been successful in increasing military sales to Peru as witnessed by the recent shipment of tanks, trucks, and assorted arms.
- VI. The Peruvian economic outlook remains strong despite several problem areas.
- A. Losses suffered in fishmeal exports and slowed copper growth continue to be offset by record world commodity prices.

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- B. The world petroleum crisis continues to assure large scale investment in this sector on a joint venture basis despite Peru's economic nationalism.
- C. Agricultural stagnation continues to depress domestic production, but the government appears to be softening its stance on agrarian reform in an effort to stimulate this sector's recovery.
- D. Despite the basic soundness of the economy, future growth and development will depend heavily on Peru's ability to develop its copper deposits and petroleum resources.

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